

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

**DTX5028 – TAXATION 2**

(All sections)

1 MARCH 2017

9.00a.m. - 12.00p.m.

(3 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of **11** pages (**10** pages with **5** questions and **1** page for appendix).
2. Attempt **ALL** questions.
3. Write your answers in the answer booklet provided.

**QUESTION 1 [TOTAL 30 MARKS]**

Nazri Manufacturing Sdn Bhd is a locally incorporated resident company. It manufactures electronic components for several brands of locally assembled cars. It closes its accounts on 31 December each year.

The results for the year ended 31 December 2016 is appended below:

**Nazri Manufacturing Sdn Bhd**

**Statement of Comprehensive Income for the year ended 31 Dec 2016**

	Note	RM'000	RM'000
Sales			292,000
Less: Cost of sales			<u>159,000</u>
Gross profit			133,000
Add: Other income			
Dividend	1	26	
Interest	2	24	
Rental		<u>27</u>	<u>77</u>
			133,077
Less: Expenses			
Salaries and wages	3	820	
Loan interest	4	70	
Entertainment	5	200	
Depreciation		60	
Repair and maintenance	6	225	
Bad debts and doubtful debts	7	469	
Motor vehicle expenses	8	60	
Staff welfare	9	167	
Advertisement and publicity	10	458	
Professional fees	11	93	
Donation	12	200	
Insurance premium (import cargo)		30	<u>2,852</u>
Profit before taxation			<u>130,225</u>

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## Notes to the accounts:

## 1. Dividend

The company received a single tier dividend of RM14,000 paid by a local listed company in September 2016 and RM12,000 dividend from an investment in a foreign company that was remitted to Malaysia in November 2016.

## 2. Interest

RM12,000 was interest of fixed deposit with a foreign bank and another RM12,000 was received from a local bank.

## 3. Salaries and wages

The remuneration package for the managing director under 'wages and salaries' includes payments made to him as follows:

	Particulars	RM'000
(a)	Salary	150
(b)	Bonus	50
(c)	EPF contribution	45
(d)	Salary to disabled employees	27
(e)	One free overseas trip to director	<u>18</u>
	Total	<u>290</u>

## 4. Loan Interest

Interest charges consist of the following:

- (a) RM50,000 was interest paid for a working capital loan to purchase assets of the business.
- (b) RM20,000 is interest on a loan taken to purchase shares from which the dividends were received.

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## 5. Entertainment

Entertainment consists of the following expenses:

Particulars	RM'000
(a) Company annual dinner	20
(b) Entertainment expenses of clients	70
(c) Entertainment allowance to staff	20
(d) Lunch provided by company	10
(e) Promotion expenses for the company's products	80
Total	<u>200</u>

## 6. Repair and maintenance

Particulars	RM'000
(c) Extension of the sales office	30
(d) Replace the old (entire) asset	90
(e) Replace part of components on machinery	25
(d) Renovation of factory	80
Total	<u>225</u>

## 7. Bad debts and doubtful debts

Particulars	RM'000
(a) Bad debts written off	88
(b) General bad debts provision	200
(c) Specific bad debts provision	135
(d) Bad debts (staff commission written off)	16
(e) Bad debts (advance to supplier written off)	30
Total	<u>469</u>

8. Motor vehicle expenses RM9,000 relates to traffic offences by the company's marketing staff. RM51,000 refers to repairs, spares, insurance and road tax for the company commercial vehicles.

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9. Staff welfare

During the year, the company purchased a building to provide child care facility for its employees. It was incurred RM100,000 for building and RM47,000 for maintenance of its premise. The company also provided staff medical and dental benefits for RM20,000.

10. Advertisement and publicity

The company spent RM200,000 to participate in International Standardization Activity as approved by Department Standards Malaysia and RM80,000 was spent on hard print advertising to promote this patented product.

It also spent RM128,000 for provision of library facilities. Other general advertising expenses was spent on local television advertisement and free gift to dealers upon purchase of a specified quantum of goods. The cost of gift during the year was RM50,000.

11. Professional fees

During the year, the company had incurred the following professional charges:

Particulars of expenditure	RM'000
(a) Fees on renewal existing trademark	9
(b) Guarantee fee for a bank loan	14
(c) Lease arrangement for the motor vehicle and plant	10
(d) New supply contract	5
(e) Accounting fees	6
(f) Audit fees	12
(g) Staff recruitment charges paid to employment agency	37
Total	<u>93</u>

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12. The following donations were made:

Particulars	RM'000
(a) To an approved institution	24
(b) Sports equipment for an activity approved by Minister	50
(c) Cash donation to Selangor State Government	80
(d) To a project of national interest approved by Minister	16
(e) Cash donation to old folks home approved by Minister	<u>30</u>
Total	<u>200</u>

13. Other information:

For the year assessment 2016, the company is claiming capital allowance of RM10,827,000 on its assets used in the business.

**Required:**

Based on the information given, compute the chargeable income of Nazri Manufacturing Sdn Bhd for the year assessment 2016.

Note:

Your computation should start with the profit before taxation and follow the description used in the Statement of Comprehensive Income. You should indicate 'Nil' or 0 where no adjustments are made or are not required. (30 marks)

**Continued.....**

**QUESTION 2 [TOTAL 10 MARKS]**

Graha Sdn Bhd, a Malaysian resident company, was awarded a mega project by the Kedah state government to construct a theme park in Pulau Langkawi, Kedah. The project involves a consortium of contractors and suppliers from Malaysia as well as from Singapore and Taiwan counterparts. The project started in June 2015 and is expected to complete in December 2016.

The following payments were made by Graha Sdn Bhd to its contractors and suppliers during the year 2015:

- (i) RM15,000,000 lump sum payment to Locumn Pte Ltd, a Singapore company, consists of:
- |  | RM        |
|--|-----------|
| (a) Payment for materials                    | 2,000,000 |
| (b) Payment for lease of high-tech equipment | 1,000,000 |
| (c) Contract service                         | 5,000,000 |
- (ii) Payment of RM4,000,000 to Annke Plc Ltd, a Taiwanese company, for the use of patent and design in the project.
- (iii) Payment of RM3,200,000 to Robocom Sdn Bhd, a Malaysian resident company located in Singapore for consultancy services.

**Required:**

State with reason(s) whether the above payments are subject to withholding tax and state the amount of withholding tax to be paid (if applicable). (10 marks)

**Continued.....**

**QUESTION 3 [TOTAL 20 MARKS]****PART A**

Anello Manufacturing Sdn Bhd is floor tiles manufacturer, a local resident company incorporated in 2007. It closes the accounts on 31 December each year. In 2013, the company wanted its own factory and accordingly purchased a piece of land and completed construction in April 2014. The relevant expenditure incurred are as follows:

**Anello Manufacturing Sdn Bhd**

<b>Particulars of expenditure</b>	<b>RM</b>
Cost of land	312,000
Legal fee for transfer of land	31,193
Clearing of land	116,973
Cutting and leveling land	70,184
Excavation and preparation of site for construction	63,165
Piling and foundation works	113,074
Construction of building	278,897
Construction of wall	27,294
Architect fee-building design	109,175
Legal services for obtaining various building approval	50,688
Subcontract charges for installation of wiring and plumbing	57,707
Landscaping charges	62,386
<b>Total</b>	<b><u>1,292,736</u></b>

The production demand exceeded expectation and the factory building was found to be inadequate to support the demand. In October 2016, the land and the building was sold for RM1.8 million. It was agreed that the land portion of the sale was RM800,000.

**Continued.....**



**Required:**

With reference to the Income Tax Act 1967 (as amended), compute the following:

- i) The qualifying industrial building expenditure.
- ii) The industrial building allowance due for the years of assessment 2014 to 2016.
- iii) The balancing allowances or charges (as the case may be) upon disposal of the land and the building in 2016.

(9 marks)

**PART B**

A new motor car amounting RM135,000, has been wholly used by Kyle's trader business since its acquisition on 12 January 2012. On 30 October 2015 she disposed the car for RM75,000. The first set of accounts was made up to 31 December 2013, and it continues annually at 31 December.

After disposing the motor car, she was thinking to a new motor car (bigger than previous motor car) for her business use. On 21 November 2015, Kyle decided to purchase a new van to be wholly used in her business.

Below are the details of the acquisition of the van:

	RM'000
Cost of van	110
Less: Downpayment	(62)
Principal sum financed (exclude interest)	48
Total number of instalments	24
First instalment	1 December 2015

**Required:**

- i) Compute the capital allowance in respect of the motor vehicle for YA 2013, 2014 and the balancing charge/allowance upon its disposal in YA 2015.
- ii) Compute the capital allowances in respect of the van in YA 2015 and 2016.

(11 marks)

Continued.....

**QUESTION 4 [TOTAL 20 MARKS]**

Puan Syakila is a Malaysian citizen, and operates a restaurant and food catering partnership business with Khuzairy. The accounts of the partnership are made up to 31 December each year. The partnership terms are as follows:

- i) Interest of 5% per annum to be paid to Syakila and Khuzairy on their capital contribution of RM200,000 and RM140,000 respectively.
- ii) Syakila and Khuzairy are to be paid salaries of RM7,000 and RM6,000 per month respectively.
- iii) Profit sharing ratios of 2/3 for Syakila and 1/3 for Khuzairy.

On 1 July 2016, Khuzairy left the partnership and Ariana joined as a new partner with a capital contribution of RM200,000. The new partnership maintains its accounts to 31 December each year. The profit sharing ratio and terms of the partnership were changed effective from 1 July 2016 as follows:

- i) Syakila and Ariana will receive an interest of 5% per annum based on their capital contribution.
- ii) A salary of RM8,000 per month is to be paid to each partner.
- iii) Effective from 1 July 2016, the profit sharing ratio for the partners is 1:1.
- iv) The provisional adjusted income of the partnership for the year of assessment 2016 are as follows:

1.1.2016 – 30.6.2016	RM130,000
1.7.2016 – 31.12.2016	RM130,000

- v) The capital allowance for the year assessment 2016 amounting RM40,000.

**Required:**

Compute adjusted income and statutory income for the partnership business of Puan Syakila, Khuzairy and Ariana for the year assessment 2016. (20 marks)

Continued.....

**QUESTION 5 [TOTAL 20 MARKS]**

Mr. Loui purchased a piece of land and signed an agreement on 14 July 2012 with agreed price of RM339,270. He settled the full payment of the acquisition on 30 September 2012 upon obtaining a bank loan. The vendor then transferred the land to him on 21 November 2012. Mr. Loui incurred the following expenses in acquiring the land: stamp duty of RM5,785 and legal fees of RM2,825. Mr. Loui spent RM47,340 for levelling the land after the purchase.

In February 2013, the land was partially damaged by a flash flood and he was paid a compensation of RM30,000. Again in April 2014, the land was flooded, and he received a further compensation of RM15,000.

In October 2014, Mr. Loui decided to sell the land. He advertised the land and a buyer responded and paid a deposit of RM7,000 after few negotiations. The buyer was not successful in obtaining a bank loan to buy the land, and Mr. Loui forfeited the deposit of RM7,000.

A dispute arose regarding the title of the land from a third party, and Mr. Loui required a lawyer service to successfully defend his right on the land. The legal fee was RM7,000. Subsequently, other buyer agreed to purchase the land for RM433,950 after a hard bargain, and he signed an agreement with Mr. Loui on 15 October 2015. The payment was settled on 15 November 2015. The title was transferred to the buyer on 15 December 2015.

In securing a buyer for the land, Mr. Loui had incurred the following expenditure: valuation fee: RM6,707; advertisement: RM1,184; brokerage fee; RM9,468. Mr. Loui also incurred an interest charge of RM63,120 on the mortgage loan to acquire the land, and RM3,400 of legal fee.

**Required:**

In relation to the Real Property Gains Tax Act 1976, compute the Real Property Gains Tax for disposal of the land. (20 marks)

**Continued.....**

## APPENDIX

The following rates and allowances are to be used in answering all questions:

### Rates of Capital & Industrial Buildings Allowances for YA 2016:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

### Rates of Agriculture Allowances YA 2016:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%
(e) construction of any other building (smoke house, estate office)	10%

### Rates of Real Property Gains Tax: *Effective 1<sup>st</sup> January 2014 onwards*

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

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